

# Doll's Deliberations®

## Weekly Investment Commentary



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### Summary

Despite a strong Friday rally, stocks finished lower last week (S&P 500 -0.30%). Investors slightly dialed back expectations for two more 25bp Fed rate cuts this year, with some economic data generally arguing against the economic slowdown thesis. Best sectors were energy (+4.67%) and utilities (+2.85%); worst sectors were communication services (-2.72%) and materials (-2.02%).

### Key takeaways

1. The CBO's September forecast shows real GDP growth slowing to about 1.4% y/y in 2025 (down from 1.9% projected in January).
2. There have been notable cracks in the U.S. labor market but no broad contagion. [Initial jobless claims last week were 218,000 (237,000 four-week average)].
3. The loss of momentum in U.S. payroll job growth has been a concern. But, as long as corporate profits are growing and the Fed is not raising rates, stocks tend to be okay.
4. The housing market continues to face headwinds (e.g., high prices, high mortgage rates, rising insurance premiums, higher utility bills, and increasing ongoing maintenance expenses).
5. As the Fed may have shifted focus to the weaker employment data (and away from inflation) this could be concerning for bond bulls.
6. Post-FOMC remarks underline a divided committee, with hawks stressing limits on further easing while the doves want to cushion labor weakness.
7. 2025 estimated operating margins for the S&P 500 are at fresh cycle highs and projected to rise further in 2026.
8. The S&P 500 forward price-to-sales ratio is at a record high of 3.19. The S&P 500 forward price-to-earnings ratio is at a near record high of 22.8. The Tech Bubble burst after it reached a peak of 25.0 in late 1999.
9. Consensus earnings estimates show small cap (S&P 600) earnings growth faster than large cap (S&P 500) starting in Q1 of 2026.
10. The U.S. accounts for 65% of the market capitalization of the All Country World (ACW) MSCI Index. That is up from a low of 42% in late 2009.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.15	10.11
S&P 500	-0.30	14.05
NASDAQ	-0.64	17.01
Russell 1000	-1.01	13.20
Russell 1000 Growth	-0.83	16.26
Russell 1000 Value	0.11	11.28
Russell 2000	-1.53	9.18

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-2.72	25.67
Consumer discretionary	-1.21	5.31
Consumer staples	-1.08	3.47
Energy	4.67	10.30
Financials	-0.38	12.71
Healthcare	-0.84	-0.14
Industrials	0.09	17.05
Information technology	0.32	20.67
Materials	-2.02	8.22
Real estate	0.92	5.54
Utilities	2.85	17.09

## Accommodative Central Banks Fuel Higher Prices Despite Sticky Inflation and High Valuations

Boosted by hopes for a significant easing of Fed policy in the coming year, as well as ongoing accommodative monetary conditions in other developed markets, global risk asset prices have remained well bid. A bull market driven by positive macro forces will continue for as long as no opposing force develops. Stretched valuations and technical conditions are not the catalyst for a trend reversal, but they impact the magnitude of the downside once a change in the backdrop appears likely. So stocks will likely remain firm until bonds protest or economic growth stumbles. (It is important to note that longer-dated bonds have sold off since the Fed cut rates.)

In view of the sizable gains in almost all risk-asset markets in recent years, it remains clear that monetary conditions were never restrictive, in contrast with the belief of central bankers. Monetary policy, in fact, has become steadily more accommodative in the past year. While global economic data have ebbed and flowed, corporate profits have risen steadily, underscoring that it was premature to bet on a recession.

Plentiful liquidity has sustained historically rapid asset-price inflation. The investment loser this decade has been government bond markets, down relative to inflation and versus cash returns. Government bond yields have tracked sideways this year at levels that are not constraining corporate profits and, thus, the economic expansion.

Gold prices have been rising due to a variety of factors, including plentiful liquidity, a deteriorating geopolitical backdrop, an erosion in the inflation credibility of central banks, and a weaker U.S. dollar. The last time gold prices soared in such an open-ended fashion was in the late 1970s, when inflation was out of control and faith in government institutions had declined significantly.

High-flying U.S. AI and related stocks are extended, with valuations only ever seen during the tech boom of the late 1990s. Today's fundamentals appear constructive, but extrapolating ever-higher sales and profits eventually becomes dangerous. To have stood aside in 1999 and missed out on the last upleg in tech stocks might have felt foolish at the time, but it paid off when the bubble burst.

The consensus is that the Fed has already more or less committed to easing once or twice more this year, almost regardless of incoming economic data. At some point, the window to ease will close due to stickier than expected inflation. More accommodative monetary conditions and upcoming fiscal stimulus should more than offset tariff-related drags in 2026. Rate-cut expectations for 2026 will unwind if our economic/inflation view pans out.

## Conclusion

Monetary conditions have been accommodative and are still easing. This, combined with the ongoing uptrend in corporate earnings, are fueling asset-price inflation. Nevertheless, the risk-on backdrop should persist until bond yields rise materially, or economic and earnings growth disappoint.

Source: Bloomberg as of Sept. 19, 2025

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-0.83	17.02
MSCI ACWI EX U.S.	-0.66	24.55
MSCI EAFE	-1.01	23.04
MSCI EM	0.24	27.29

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.26	5.92
Bloomberg U.S. Corp High Yield	-0.25	7.07
Bloomberg U.S. Gov/Credit	-0.28	5.67
Bloomberg U.S. T-Bill 1-3 Month	0.04	3.19

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-0.31	3.10
Commodities (DJ)	2.15	9.82
Global listed private equity (Red Rocks)	-3.39	7.39
Currencies (DB Currency Future Harvest)	0.27	0.93